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ANNUAL REPORT

OF

MARSHALL FIELD & COMPANY

YEAR ENDED
DECEMBER 31, 1945

CORPORATE OFFICES

The Merchandise Mart
222 North Bank Drive : Chicago 54, Illinois

BOARDS
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A notice of the annual meeting of shareholders, to be held on April 23, 1946, together with a proxy statement and form of proxy will be mailed to shareholders on or about March 23, 1946. Proxies will be solicited by the management.

MARSHALL FIELD & COMPANY

An Illinois Corporation

Founded in 1852 Incorporated in 1901

BOARD OF DIRECTORS

ALBERT B. DICK, JR.
MARSHALL FIELD
STANLEY FIELD
CHARLES Y. FREEMAN
HUGHSTON M. McBAIN
JAMES L. PALMER
JAMES SIMPSON, JR.
ALBERT A. SPRAGUE
JOHN P. WILSON

OFFICERS

President
HUGHSTON M. McBAIN

First Vice President
JAMES L. PALMER

Vice Presidents
LUTHER H. HODGES
WILLIAM S. STREET

Secretary and Treasurer
EARL KRIBBEN

Assistant Secretaries
RALPH E. BOWERS
MILTON C. MUMFORD

Comptroller
JOHN D. ANDERSEN

Assistant Secretary and Assistant Treasurer
GERALD A. SIVAGE

Assistant Treasurer
LELAND C. CARSTENS

Assistant Comptroller
JAMES C. WALSH

General Counsel
WILSON & McILVAINE
CHICAGO

Public Accountants
ARTHUR ANDERSEN & CO.
CHICAGO

Transfer Agents
CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO
CHICAGO

GUARANTY TRUST COMPANY OF NEW YORK
NEW YORK

Registrars
THE FIRST NATIONAL BANK OF CHICAGO
CHICAGO

BANKERS TRUST COMPANY
NEW YORK

TO THE SHAREHOLDERS

The Board of Directors submits this annual report for the year ended December 31, 1945.

Three constructive steps of major importance highlighted the affairs of your Company in the eventful year of 1945:

The Merchandise Mart was sold.

The entire funded debt of the Company was retired.

All of its Preferred Shares were refinanced.

During the year each of our retail stores experienced the largest sales in its history. Volume in the Manufacturing Division approximated that of 1944. With the war terminated, we began again to conduct our business on the basis of a peacetime economy. Goods which were unavailable during the war once more started to appear on our shelves, although in limited quantities. As we enter 1946 we look forward to the restoration of the standards of service that our customers properly expect from Marshall Field & Company.

OPERATING RESULTS

	1945	1944
Earnings Before Interest and Federal Income Taxes	$21,747,132	$20,711,988
Deduct—		
Interest charges (including in 1945 debt redemption premium of $659,300)	1,230,190	733,060
Provision for Federal normal tax and surtax	1,878,579	1,878,579
Provision for Federal excess profits tax	13,428,270	13,090,684
Net Profit	$ 5,210,093	$ 5,009,665
Deduct—		
Provision for possible future decline in market value of inventories, and other contingencies	—	1,000,000
Balance Transfered to Earned Surplus	$ 5,210,093	$ 4,009,665

Net profit and dividends paid per Common Share in each of the last four years were as follows:

	1945	1944	1943	1942
Net Profit (After preferred dividend requirements)	$2.35*	$2.11	$2.22	$2.07
Dividends Paid	$1.10	$1.00	$1.00	$1.00

*Based upon present annual preferred dividend requirements of $637,500.

Dividends on our Preferred Shares declined from $900,000 in 1944 to $713,852 in 1945 as a result of the refinancing of these shares in March, 1945. Common dividends declared in 1945 totalled $2,332,516 compared with $1,943,763 in 1944.

The first quarterly common dividend of 1946 was paid on January 31 at the rate of 30c per share.

Net sales and rental income for 1945 were $165,477,482 compared with $152,167,229 in 1944, a gain of 9%.

Sales volume in the Retail Division was more than 12% higher than in the preceding year. The number of sales transactions in each of our retail stores exceeded the all-time highs established in 1944. Retail gross profit ratios declined slightly and expenses were higher. A substantial part of the expense increase was the result of higher wages.

While sales in the Manufacturing Division remained at high levels in 1945, gross profit margins were narrower due to the effect of price ceilings and higher wage levels. Net profits in this division were materially less than a year ago, but were at a reasonable level in view of the conditions under which we were obliged to operate. At the cessation of hostilities unfilled orders of the Manufacturing Division for the armed services amounted to $2,000,000. Nearly all these orders had been shipped, or cancelled without loss, as of December 31, 1945. We anticipate no need for a provision for renegotiation of government contracts in 1945. Reconversion presented no appreciable problems since we produce merchandise for the armed services and for civilians with the same machinery.

The Manufacturing Division is feeling the loss of wartime business to some extent. However, the pent-up demand for textiles such as we manufacture is so great that we anticipate high levels of production throughout 1946. In keeping with our aggressive selling plans we have completed a larger and more modern textile showroom in New York and have enlarged and restyled our Karastan floor covering showrooms in Chicago and New York.

SALE OF THE MERCHANDISE MART

On July 21, 1945, the Company contracted to sell The Merchandise Mart to interests representing Mr. Joseph P. Kennedy, former Ambassador to Great Britain. On November 13, 1945, all provisions of the contract having been fulfilled, title to The Merchandise Mart was transferred.

Our decision to sell this building grew out of the aftermath of the liquidation of our Wholesale business between 1935 and 1937. The Merchandise Mart, completed in 1930, was built primarily to furnish new quarters for the Company's Wholesale Division. Mainly because of the liquidation of this Division, Marshall Field & Company occupancy in the Mart decreased from an original 42% of its space to about 7% in 1945. Thus, the primary function for which the Company constructed the Mart was removed and it was no longer needed in our principal operations of retailing and textile manufacturing.

At the time we signed the contract to sell, 34% of the building was occupied by agencies of the Federal and State Governments. Ninety per cent of this occupancy was subject to cancellation by such agencies in 1945 and 1946. We were not in a position to rent this space to permanent commercial tenants, and at the same time were forced to bear the risk of losing important income on short notice through decreases in Government occupancy.

FINANCIAL CONDITION

The principal events affecting the Company's financial structure in 1945 were the refinancing of its Preferred Shares, the sale of The Merchandise Mart, and the liquidation of all the funded debt.

Through an exchange offer and public sale the Company in March, 1945 replaced its $15,000,000 of 6% Cumulative Preferred Shares of both series with the same amount of 4¼% Cumulative Preferred Shares. The new shares were offered at 104 and the two series of 6% Preferred Shares were called at 110 and 105. The transaction reduced annual preferred dividend requirements from $900,000 to $637,500, and resulted in a charge to Paid-in Surplus of $960,100.

The sale of The Merchandise Mart reduced the Company's fixed assets by more than $20,000,000. Through the sale price and the reduction in Federal taxes resulting from the loss on the transaction, the Company recovered $18,140,019 which was immediately applied to the retirement of the $18,750,000 of funded debt then outstanding. The additional cash required to retire debt and to pay the $659,300 premium thereon came from the Company's general funds. The net loss sustained on the sale, amounting to $2,506,817 after taxes, was charged against the reserve for inventory decline and other contingencies.

The Company's financial position has been strengthened materially during 1945. With our funded debt liquidated, and with no sizable long-term lease obligation such as we had on the Chicago store land prior to its purchase a few years ago, the dividend requirement on the new 4¼% Preferred Shares is the only charge of consequence remaining ahead of the Common Shares.

During the year our working capital increased $1,147,189 to $27,790, 934. The current ratio at the year-end was 2.1 to 1 compared with 1.9 to 1 at the end of 1944.

A decrease of $4,966,205, from $28,741,844 to $23,775,639, in total cash and Government security holdings was more than offset by a reduction of $6,022,700 in Federal tax accrual. Our excess of cash and Government securities over such tax accrual at the year-end was $12,744,896 compared with $11,688,401 at the end of 1944. Our present cash resources are substantially above normal but this is due in part to the necessarily low level of expenditures on plant and equipment during the war period. Such expenditures approximated $1,500,000 in 1945 compared with less than half that amount in each of the two preceding years. Partly as a result of the deferment of improvements during the war, we plan to spend approximately $5,000,000 in 1946 on the modernization and expansion of the Company's present retailing and manufacturing properties.

The 1945 year-end merchandise inventory of $15,557,305 was inadequate under current conditions of customer demand. While the problem of merchandise supply continues to be most difficult, we anticipate that it will gradually ease during 1946.

Our future merchandise commitments at the end of 1945 were $15,812,000, an increase of $3,849,000 over December 31, 1944. While this is an abnormally high level of commitments, we believe that reasonable service to customers cannot be maintained without approximating this figure. Our commitment policy has been as conservative as circumstances permitted throughout the war period. As goods gradually become more plentiful, we expect our inventories to expand somewhat and our future commitments to be reduced materially.

Earned surplus increased during the year from $9,700,838 to $11,864,563. Dividends were the only charge against earned surplus, and totalled $3,046,368 compared with $2,843,763 in 1944.

In the few years preceding 1945, the Company built up a $6,000,000 reserve against inventory price declines and other contingencies. At the end of 1945, as a result of the loss on the sale of The Merchandise Mart, this reserve stood at $3,493,183.

In 1943 we established out of earned surplus a reserve of $5,000,000 against the estimated net past service cost of the Pension Plan adopted in that year. Annual charges against this reserve, in the first three years of the Plan, have reduced its amount to $4,208,839.

The Company in 1945 made payments approximating $2,750,000 toward the cost of its employe Retirement Program, of which the Pension Plan is a part. These payments exceed by about $700,000 the corresponding payments in each of the last two years. This increase in the cost of the Retirement Program is due to increased wage and salary levels.

PERSONNEL

Under the provisions of our Retirement Program, Mr. Charles C. Bunker, President of our Frederick & Nelson store in Seattle, and also a Vice President of Marshall Field & Company, retired December 31, 1945. Mr. Hilton Thorpe, for many years manager of our European offices, retired December 31, 1945. Your Board of Directors adopted resolutions commending each of these men for many years of loyal and effective service to the Company.

Mr. William S. Street, Vice President, who was General Manager of the Chicago and Suburban stores during the past three years, returned to his former post in Seattle January 1, 1946 to succeed Mr. Bunker as President of Frederick & Nelson. Mr. Hector Escobosa will continue as General Manager of Frederick & Nelson.

The management of the Chicago and Suburban stores will be handled by the heads of the stores' five major divisions, each of whom will report to the President. They are:

Austin T. Graves—General Operating Manager
Harold J. Nutting—General Merchandise Manager
Lawrence B. Sizer—Sales Promotion Manager
Garret L. Bergen—Personnel Manager
Paul A. Barkmeier—Comptroller

Each of these men has had wide experience in his field of operation and all but one of them have been in positions of responsibility with the Company for many years.

On September 1, 1945, Mr. Earl Kribben returned from military service and resumed his former position as Secretary and Treasurer. On February 1, 1946, Mr. Milton C. Mumford returned from service in the Navy to his former position as an Assistant Secretary of the Company. Mr. James C. Walsh was appointed Assistant Comptroller in April, 1945.

GENERAL COMMENTS

Your management believes it is unwise for this Company during such times as these to undertake elaborate expansion plans. We think it is sounder policy to concentrate our energies and resources on important improvements in our existing operations.

In the Chicago store our immediate plans center largely on improved lighting, ventilation, and transportation. These plans include a new escalator running from the basement to the 10th floor in the North State Street building. We are expanding both our Evanston and Oak Park stores, in order to increase their attractiveness and make them more serviceable to customers.

For the past several years the warehouse requirements of the Chicago stores have been provided for in several different buildings, including The Merchandise Mart. After the Mart was sold we decided to combine most of our Chicago warehouse operations in one building. We have contracted to purchase a property adequate for this purpose located about three miles southwest of the Chicago Loop. Within the next year or two we intend to relinquish the present leased warehouse properties and consolidate our warehousing activities in the newly acquired building. As a result we anticipate considerable savings in operating costs.

We are starting immediately to build a substantial addition to the Frederick & Nelson store, and to modernize its internal transportation system. The sales in this store have more than doubled since it was acquired in 1929. While some of the current business is no doubt due to wartime prosperity, we believe that the future of Seattle in general, and that of Frederick & Nelson in particular, justify the planned expansion.

Our modernization program in the Manufacturing Division was delayed somewhat during the war years. We have appropriated approximately one million dollars toward this program for 1946, practically all of which will be spent on modern textile machinery.

When the war ended, we entertained high hope of being well along the road toward solution of our two most difficult wartime problems by the end of the year. That hope was premature, for we were obliged to go through the entire Christmas period with a severe shortage of manpower, and with an inadequate supply of many types of merchandise. Now, early in 1946, these two problems are still with us but both should be lessened in severity as we move through the year.

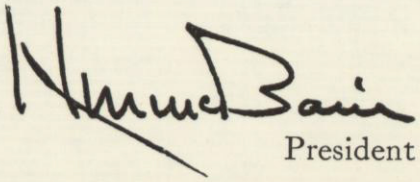
We hope the years ahead will be less trying for our organization than the war years have been. While the sacrifices made by the civilian population were small indeed compared to those of individuals in military service, nevertheless the war placed a heavy strain upon employes in businesses such as ours. In view of the determination, loyalty and resourcefulness with which our organization has overcome the problems of the war period, we have the most profound faith in its ability to meet whatever conditions lie ahead.

We are happy to welcome back from the armed services many of our former associates. We are proud of the contribution they made toward victory. They are proving most valuable in our effort to restore and improve upon prewar standards of customer service.

The Company enters 1946 in the strongest position it has enjoyed in many years. Even though the economy of the country is in a far from tranquil state at the moment, we believe that the underlying wisdom, fairness and common sense of the American people will ultimately prevail, and provide means of solving the many complex problems of the nation.

By order of the Board of Directors,

February 15, 1946



President

ARTHUR ANDERSEN & CO.

120 SOUTH LA SALLE STREET
CHICAGO

To the Shareholders of
Marshall Field & Company:

We have examined the balance sheet of MARSHALL FIELD & COMPANY (an Illinois corporation) as of December 31, 1945, and the statements of profit and loss, surplus and reserves for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and it included all procedures which we considered necessary. We had previously made a similar examination for the year ended December 31, 1944.

In our opinion, the accompanying balance sheet and related statements of profit and loss, surplus and reserves present fairly the position of Marshall Field & Company at December 31, 1945, and the results of its operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
February 5, 1946.

To the Shareholders of
Marshall Field & Company:

The financial statements contained in this report are correct, to my best knowledge and belief.

John D Andersen

February 15, 1946

Comptroller

Statement of Profit and Loss

For the Years Ended December 31, 1945 and 1944

	1945	1944
EARNINGS FROM RETAIL AND MANUFACTURING OPERATIONS:		
Net sales to customers	$161,893,962	$148,273,338
Cost of sales and operating expenses	141,355,620	128,543,732
	$ 20,538,342	$ 19,729,606
EARNINGS FROM REAL ESTATE OPERATIONS:		
Rental income from tenants	$ 3,583,520	$ 3,893,891
Operating expenses	2,374,730	2,911,509
	$ 1,208,790	$ 982,382
Total earnings before interest and Federal income taxes	$ 21,747,132	$ 20,711,988
INTEREST CHARGES ON FUNDED DEBT (including, in 1945, debt redemption premium of $659,300)	1,230,190	733,060
Total earnings before Federal income taxes	$ 20,516,942	$ 19,978,928
PROVISION FOR FEDERAL INCOME TAXES (SEE FOOTNOTE):		
Normal tax and surtax	$ 1,878,579	$ 1,878,579
Excess profits tax	13,428,270	13,090,684
	$ 15,306,849	$ 14,969,263
NET PROFIT FOR THE YEAR	$ 5,210,093	$ 5,009,665
DEDUCT: Provision for possible future decline in market value of inventories, and other contingencies	—	1,000,000
BALANCE TRANSFERRED TO EARNED SURPLUS	$ 5,210,093	$ 4,009,665

FOOTNOTES:

The above provisions for Federal income taxes have been determined before deducting the loss on the sale of the Merchandise Mart in 1945 and the portions of the past service cost of the Pension Plan paid in 1945 and 1944. These items and the reductions in taxes resulting therefrom are reflected in reserves. The taxes payable after deducting these charges are estimated at $9,032,146 in 1945 and $14,029,117 in 1944.

The Company has filed, or will file, applications for the reduction of Federal excess profits taxes for the years 1941 through 1945 under the tax relief provisions of Section 722 of the Internal Revenue Code. No effect has been given thereto in the accompanying financial statements since the outcome of the applications cannot be determined at this time.

Provisions for depreciation of buildings and equipment and amortization of leaseholds, included in cost of sales and operating expenses, amounted to $2,345,048 in 1945 and $2,360,857 in 1944.

Statement of Surplus and Reserves
For the Year Ended December 31, 1945

Earned Surplus

Balance at December 31, 1944		$ 9,700,838
Net Profit for the Year		5,210,093
		$14,910,931
Deduct:		
Cash dividends declared on—		
6% Cumulative Preferred Shares	$ 233,319	
Cumulative Preferred Shares, 4¼% Series	480,533	
Common Shares ($1.20 per share)	2,332,516	3,046,368
Balance at December 31, 1945		$11,864,563

Paid-In Surplus

Balance at December 31, 1944		$10,167,279
Deduct:		
Excess of premium paid ($1,227,540), on redemption of 6% Cumulative Preferred Shares over premium received ($600,000) on issuance of 4¼% Cumulative Preferred Shares	$ 627,540	
Refinancing expenses	332,560	960,100
Balance at December 31, 1945		$ 9,207,179

Reserve for Possible Future Decline In Market Value of Inventories, and other Contingencies

Balance at December 31, 1944	$ 6,000,000
Deduct:	
Loss on sale of Merchandise Mart ($7,694,320) less reduction in Federal excess profits tax ($5,187,503) resulting therefrom	2,506,817
Balance at December 31, 1945	$ 3,493,183

Reserve for Estimated Net Past Service Cost of Pension Plan

Balance at December 31, 1944	$ 4,631,639
Deduct:	
Portion of past service cost paid in 1945 ($1,510,000), less reduction in Federal excess profits tax ($1,087,200) resulting therefrom	422,800
Balance at December 31, 1945	$ 4,208,839

BALANCE SHEETS-

ASSETS

	1945	1944
CURRENT ASSETS:		
Cash	$ 12,038,303	$ 10,182,931
United States Government securities, at cost	11,737,336	18,558,913
Receivables from customers and others, less reserves	12,702,035	12,398,788
Merchandise inventories, priced at the lower of cost or market	15,557,305	15,477,685
TOTAL CURRENT ASSETS	$ 52,034,979	$ 56,618,317
PREPAID INSURANCE, SUPPLY INVENTORIES, ETC.	$ 1,205,032	$ 2,416,375

FIXED ASSETS:

Classification	Cost	Reserves for Depreciation and Amortization		
Retail and manufacturing properties, etc.—				
Land	$16,238,381	$ —	$ 16,238,381	$ 16,240,212
Leaseholds	730,846	130,514	600,332	603,602
Buildings and building equipment	22,127,407	12,899,992	9,227,415	9,663,718
Equipment	11,909,541	6,379,057	5,530,484	5,311,225
Merchandise Mart	—	—	—	21,339,693
TOTAL FIXED ASSETS	$51,006,175	$19,409,563	$ 31,596,612	$ 53,158,450
GOODWILL, TRADEMARKS, ETC.			$ 1	$ 1
			$ 84,836,624	$112,193,143

DECEMBER 31, 1945 AND 1944

LIABILITIES

	1945	1944
CURRENT LIABILITIES:		
Accounts payable	$ 7,025,825	$ 5,350,799
Accruals—		
Federal income and excess profits taxes	11,030,743	17,053,443
Local and miscellaneous taxes	3,874,281	3,686,228
Other accruals	2,313,196	2,484,102
Current sinking fund requirements and serial bond maturities	—	1,400,000
TOTAL CURRENT LIABILITIES	$ 24,244,045	$ 29,974,572
FUNDED DEBT:		
First Mortgage Serial Bonds, Series Three, 3%	$ —	$ 10,000,000
First Mortgage Sinking Fund Bonds, Series A, 3.6%	—	9,900,000
	$ —	$ 19,900,000
RESERVES:		
For possible future decline in market value of inventories, and other contingencies	$ 3,493,183	$ 6,000,000
For estimated net past service cost of Pension Plan	4,208,839	4,631,639
	$ 7,702,022	$ 10,631,639
CAPITAL STOCK AND SURPLUS:		
Preferred Shares—		
6% Cumulative Preferred Shares, of $100 par value	$ —	$ 9,550,800
6% Cumulative Preferred Shares, Second Series, of $100 par value	—	5,449,200
Cumulative Preferred Shares—authorized 300,000 shares of $100 par value, issuable in series—		
4¼% Series; redeemable at premiums of from $9.00 to $4.00 per share; issued and outstanding 150,000 shares	15,000,000	—
	$ 15.000,000	$ 15,000,000
Common Shares—		
Authorized 4,000,000 shares of no par value, of which 180,000 shares may be sold to the officers or employes without first offering such shares to the shareholders; issued and outstanding 1,943,763 shares at stated value	16,818,815	16,818,815
PAID-IN SURPLUS	9,207,179	10,167,279
EARNED SURPLUS ($6,000,000 not available for dividends on Common Shares as long as Cumulative Preferred Shares are outstanding)	11,864,563	9,700,838
	$ 52,890,557	$ 51,686,932
	$ 84,836,624	$112,193,143

For all time to come...

One of the proudest chapters in the history of Marshall Field & Company is the service of 3,420 of its men and women in the armed forces of the United States in the Second World War. Of this number, 77 gave their lives in the service. In each division of the corporation, a service flag is hung in memory of these dead. Plans are under way to memorialize these associates of ours in a plaque of bronze so that their memory will be retained for all time to come. The plaque will be installed near the main entrance of the Chicago store. The Board of Directors of Marshall Field & Company desires to further that tribute by listing those same names here—in acknowledgment of the great debt we owe them as associates and as fellow citizens of this nation.

DIED IN THE SERVICE OF OUR COUNTRY 1941-1946

Harry Akers
John E. Alley
Hugh R. Ashby
Daniel Webster Atkins
E. J. Bendigo
James Warren Bishop
Joseph Blizniak
Clarence Edward Boyer
Wilbert John Brandt
Roy Clayton Bryant
Jerome J. Busch
Frank Edward Cherry
William Albert Cole
John William Connell, Jr.
James Wm. Correll, Jr.
Charles Craddock, Jr.
Joseph Fredrick Denning
Loyd C. Dillon
Joe Pete Eanes
Glenn S. Eby
Earl T. Eggleston
Glen George Gabor
George Francis Garding
Irvin C. Gilbert
Charles Frederick Goldstone
William Coakley Haas
Daniel Mungen Haley
Roy W. Hall
Robert Edward Hanna
James Kermit Hardy
Billy Travis Harris
Johnsie Harris
George M. Harrison
Thomas Charles Hemstreet
Charles Herlien
Ernest William Hopkins
Cecil Frank Hubbard
Clifford Lenert Johnson
Joe Cephas Joyce
Warren Krogh
John Stewart Lamson
William Durward Land
James Edward Law
Albert Frederic Lilienthal
M. Henry Martin
Otha A. Martin
Warren Stone McMurray
William Norman Michelson
Lloyd Reuben Moughmer
Elmer J. Mueller
William Robert Newell
Steve N. Nicholas
James Joseph Orr
James Bayard Phinney
Robert Walter Rankin
James H. Ray
Robert Hall Rowland
Joseph Coleman Sampsell
James Pauly Sharp
John C. Shepherd
Belvin C. Slaughter
Claude Ray Slaughter
Claire Erlyn Smyth
Chester J. Stryzinski
Charles Pegler Swanson
Robert Bruno Tabor
Eugene J. Taliaferro
George Thomas, Jr.
Ivor D. Thornton
John Martin Turner, Jr.
Edward Freeman Via
James William Wagner
Francis E. Westbrooks
Joseph T. Whitaker
Albert D. Wingate
Daniel Robert Wolterding
Johnnie Wray

THE FREDERICK & NELSON STORE
SEATTLE, WASHINGTON